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Pay to Play? Hardly.

Pennsylvania is going with passive funds. That was the message this week from State Treasurer Joe Torsella, who says he plans to move the state's \$1 billion in actively managed public equity (stock) funds over to index funds within six months.

Index, or passive, funds are known for their lower fees and lower volatility. Rather than managed by a trader, these funds are built using computer models that are designed to mimic the performance of stock indexes like the S&P 500. Torsella expects the shift to save at least \$5 million a year in fees.

The treasurer's announcement is part of an effort to return faith in the office after his predecessor left in disgrace amid a pay-to-play scandal. Former Treasurer Rob McCord pleaded guilty in 2015 to federal charges that he used his office to influence future investment deals and other contracts as a way raise cash for a failed gubernatorial bid.

The Takeaway: The decision to switch to passively managed funds and save money on fees is a growing trend among large investors. Nevada's \$35-billion pension plan, for instance, has long embraced the strategy. And within Pennsylvania, the \$509-million Montgomery County Employees Retirement Plan shifted most of its investments to index funds in 2013. So far, the plan has outperformed the state's pension plan — and at a far lower cost.

While Torsella's announcement is ostensibly about the state's own investments, it raises the possibility that the treasurer will push for a similar shift in the state's troubled pension funds. If he does, he'll have to get a consensus: Pennsylvania's pension funds are controlled by boards.

Either way, Torsella said of the decision: "We shouldn't treat investing public funds like a casino game, trying to 'beat' the market, and paying casino prices to do it."

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